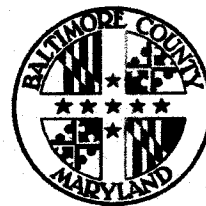


SPENDING AFFORDABILITY COMMITTEE

REPORT

FISCAL YEAR 1999



BALTIMORE COUNTY, MARYLAND

FEBRUARY 10, 1998



**BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE**

COURTHOUSE - ROOM 221

TOWSON, MARYLAND 21204

410-887-3193

410-887-4621 (Fax)

February 10, 1998

Honorable Members of the Baltimore County Council
Honorable C.A. Dutch Ruppertsberger, III, County Executive

I am pleased to submit the report of the Spending Affordability Committee for fiscal year 1999. This is the eighth year of reporting under the County's Spending Affordability statute, which was adopted in March 1990.

For the second consecutive year, the Committee met on a regular basis following issuance of its prior report. As planned, we gave special attention to the nature of the Spending Affordability Guideline, including the role of revenue estimates in determining overall County spending limits. We reaffirmed the policy change adopted last year, that only spending for essential government services should be linked to growth in the County economy. Therefore, this report again excludes various items from the Guideline, including costs which are discretionary, capital-related or funded by non-County sources. However, we took the further step this year of reviewing preliminary revenue estimates, in order to identify the resources available for total spending, including those items outside the Guideline. We also continued to recognize the need for flexibility in using personal income as the measure of economic growth; in the interests of fiscal prudence, we again considered all major personal income growth forecasts and applied a consensus growth rate to those spending items subject to the Spending Affordability Guideline.

Our interim meetings also involved review of capital budget and debt issues. As reflected in our recommendations, we continue to believe that capital budget spending should be limited to a level that can be funded within specific, reasonable debt affordability indicators based on revenues, personal income and property values.

The Committee hopes that our planned interim meetings will be equally productive this year, as we focus on other issues related to economic, revenue and budget projections.

It is important to emphasize that the Spending Affordability Guideline is a guide, and represents neither a ceiling nor a floor on County government operating or capital expenditures. Also, while the operating budget spending Guideline is only being applied to essential County services, we have identified the anticipated resources to fund the balance of the County budget. The taxpayers expect that this broader criteria of affordability will still be applied to the entire budget.


I would like to thank my Council colleagues on the Committee for their energetic participation in the committee process, and their thoughtful assistance to me as Chairman. I would especially like

to thank Dr. Dennis C. Coates, of the University of Maryland Baltimore County, who contributed his economic expertise and other valuable insights during his first year on the Committee. I would also like to thank Mr. John F. Gaburick who has served on this Committee since its inception. His long term perspective on the Committee's role remains invaluable. In addition, the Regional Economic Studies Institute at Towson University, represented by Michael A. Funk, provided the Committee with its personal income forecast, as well as other valuable economic analysis and comments.

I would also like to acknowledge the support of the Auditor's Office and Council staff. A very special thanks to Thomas J. Peddicord, Jr., Legislative Counsel/Secretary, Brian J. Rowe, CPA, County Auditor, Thomas A. Hancock, Senior Fiscal Analyst, and Michelle F. Ganjon, Fiscal Analyst Assistant, for their great help and spirit of cooperation.

We hope that this report is useful in the development and review of the County's budget for fiscal year 1999.

Sincerely,


Louis L. DePazzo, Chairman
Spending Affordability Committee

LLD:mfg

**BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE**

MEMBERS

Louis L. DePazzo, Councilman and Chairman

T. Bryan McIntire, Councilman

S.G. Samuel Moxley, Councilman

Dr. Dennis C. Coates
Department of Economics
University of Maryland Baltimore County

John F. Gaburick, CPA

STAFF

Brian J. Rowe, CPA
County Auditor

Thomas J. Peddicord, Jr., Esquire
Legislative Counsel/Secretary

Thomas A. Hancock
Senior Fiscal Analyst

Michelle F. Ganjon
Fiscal Analyst Assistant

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary.....	1
Introduction	3
Spending Affordability Comments	3
Economic Outlook for Maryland and Baltimore County	4
Spending Affordability Computation	7
Personal Income Growth Factor.....	7
Base Year (Fiscal Year 1998) Spending Level	7
Recommendation - Fiscal Year 1999 Spending Affordability Guideline	11
Debt Affordability Comments.....	12
Other Issues.....	14
Attachments:	
Exhibit A Baltimore County and Maryland Personal Income Forecasts	
Exhibit B General Fund Spending and Personal Income	
Exhibit C Fiscal Year 1999 Guideline	
Exhibit D Debt Service to Total General Fund Revenues	
Exhibit E Total Debt to Personal Income	
Exhibit F Total Debt to Full Value	

BALTIMORE COUNTY, MARYLAND

SPENDING AFFORDABILITY COMMITTEE

Report for Fiscal Year 1999

Executive Summary

The Baltimore County Spending Affordability Committee submits its report for fiscal year 1999, the eighth report since the Committee was established. This report reflects a continuation of past policies but with some minor refinements in setting the Spending Affordability Guideline to better serve the goal of insuring that the level of County spending is consistent with County economic growth. In last year's report, the Spending Affordability Guideline for the operating budget was applied only to that portion of the General Fund budget (basic County-funded operating costs) which is appropriately linked to growth in the County economy. This year, the Committee for the first time reviewed preliminary revenue estimates in conjunction with setting the Guideline, in order to address funding for those costs outside the Guideline.

The Committee continues to believe that personal income growth is generally an appropriate measure of growth in the County's economy. An analysis of the County's economy, provided to the Committee by the Regional Economic Studies Institute (RESI) -Towson University, indicates that County personal income is expected to increase by 4.92% during fiscal year 1999. However, as was the case last year, the Committee recognizes that it is sometimes prudent to adjust this measure for use in setting the Guideline, and made such an adjustment again this year.

Accordingly, **the Committee recommends that growth in spending for those items subject to the Spending Affordability Guideline be limited to 4.6% over fiscal year 1998 spending, and thus spending for those items subject to the Spending Affordability Guideline should not exceed \$879,983,165 for fiscal year 1999.** The adjusted Guideline for fiscal year 1998 was \$845,794,346; the fiscal year 1999 Guideline thus represents an increase of \$34,188,819, or 4.0% over prior year. The spending affordability computation is explained later in this report.

The Committee has identified funding of \$136,709,835 available for those items not subject to the Guideline; this represents the preliminary estimate of fiscal year 1999 General Fund revenues, less the recommended Guideline amount. This does not include the use of any unreserved fund balance which may be proposed to finance a portion of such costs, consistent with financial policies discussed later in this report.

The Committee also reaffirms its recommendations in the area of debt policy: that the amount of debt issued be limited such that total tax-supported debt service (on all long-term obligations other than pension bonds) remains at a level that is less than 10% of General Fund revenues; that total outstanding tax-supported debt not exceed 3.0% of County personal income, or 2.5% of the full value of property in the County, and; that the annual capital budget be limited to a level that can be funded within these debt affordability guidelines. These recommendations are also further explained later in this report.

The Committee has continued its policy of meeting throughout the year, to discuss those broader issues which cannot be adequately considered in the brief period between December and February. The results of these productive discussions on revenues and other topics are reflected in this report. The Committee will continue these ongoing meetings, deliberating on various economic, revenue, operating and capital budget and debt issues.

Introduction

In March 1990, the Baltimore County Council enacted legislation (Bill 33-90) which established a spending affordability law (Code sections 15-281 to 15-287) for Baltimore County. The mandated goal of the spending affordability guideline is to limit the rate of growth of County General Fund spending to a level that does not exceed the rate of growth of the County's economy.

The report is required by law to contain a recommended level of County spending consistent with the economic growth of the County. The report is to be submitted to the County Council and County Executive by February 15 of each year. This reporting date allows the Executive ample time to consider the Committee's recommendations prior to his formal presentation of the proposed budget to the Council on or before April 16 each year. The recommended level of spending is intended to be the maximum spending which should not be exceeded for a particular fiscal year. The Committee may also include other findings or recommendations that it considers appropriate. The purpose of the report is to formally provide input from the County Council to the County Executive relative to the budget formulation process. This is a significant procedure in the governmental system of checks and balances to help ensure that the operation of County government remains affordable for County citizens.

Spending Affordability Comments

This year, the Committee obtained an analysis of the County's economy from the Regional Economic Studies Institute (RESI) - Towson University, a widely recognized economic forecasting authority. Based on this analysis, as more fully described below, the Committee developed its Spending Affordability Guideline recommendation for fiscal year 1999, as discussed later in this report.

Economic Outlook for Maryland and Baltimore County

Overview

RESI projects that total non-agricultural employment in Maryland will rise 2.2% during the 1998:Q1-1998:Q4 period. That compares to the 2.1% growth registered during the previous four-quarter period. Real personal income is projected to rise 2.7% in Maryland during this period, down from the 3.9% growth recorded in the prior four quarters. The projected decline in the rate of real personal income growth is due largely to a slowdown in the rate of wage and salary growth over the upcoming four-quarter period. Transfer payments made to welfare recipients will also grow more slowly. The projections for employment and personal income growth are in line with the previous forecast RESI had made for this period.

RESI projects that total non-agricultural employment in Baltimore County will rise 2.1% during the 1998:Q1-1998:Q4 period, compared to the 1.8% growth registered during the previous four-quarter period. Real personal income is projected to rise 2.4% during this period, down from the 3.1% estimated growth recorded in the prior four quarters.

Employment

Quarterly employment growth rates in Maryland have been decelerating for much of 1997, mimicking national trends. In the most recently completed quarter for which preliminary data are available (1997:Q2), RESI estimates that total nonagricultural employment rose 0.42% in Maryland, slower than the growth registered during 1997's first quarter (0.64%). RESI estimates that this pattern of deceleration did not persist into the latter half of 1997. Employment is projected to have risen 0.55% and 0.52% in the third and fourth quarters of 1997, respectively.

Quarterly employment growth rates statewide are projected to be 0.53%, 0.56%, 0.55% and 0.56% for the four-quarter period stretching from 1998:Q1-1998:Q4. The projections

suggest that Maryland will continue to record employment growth at or slightly above the national rate, a trend that has been in force for approximately one year. Moreover, though labor force growth is likely to accelerate over the next year (Maryland's labor force grew at a slightly slower rate than the nation's), unemployment rates should continue to fall. Presently Maryland's unemployment rate is 4.5%, roughly two-tenths of one percentage point less than the nation's.

Concerning Maryland's employment performance relative to other states, recent quarters have reflected a dramatic departure from trends in force earlier this decade. Preliminary data from the Bureau of Labor Statistics (BLS) suggest that between the second quarters of 1996 and 1997, Maryland ranked 26th among the 50 U.S. states and the District of Columbia in terms of employment growth, up from 41st a year ago. In previous years of this decade, preliminary BLS data have consistently understated Maryland's rate of growth, and RESI's own estimates suggest that the most recent government figures have once again understated Maryland's economic strength. According to RESI estimates, Maryland grew at or slightly above the national rate during the four-quarter period ended 1997:Q2, not slightly below the national rate of growth as preliminary BLS figures would suggest.

Baltimore County's quarterly employment growth rates have also been decelerating for much of 1997, following state and national trends. Based on preliminary data for 1997:Q2, RESI estimates that total nonagricultural employment rose 0.38% in Baltimore County, slower than the growth registered during 1997's first quarter (0.44%). However, RESI estimates that employment will have risen 0.51% and 0.48% in the third and fourth quarters of 1997, respectively.

County quarterly employment growth rates are projected to be 0.50%, 0.53%, 0.52% and 0.52% for the four-quarter period stretching from 1998:Q1-1998:Q4. The projections suggest that the County will continue to record employment growth slightly below the rate for Maryland.

Personal Income

RESI projects quarterly real personal income growth rates to be 0.71%, 0.68%, 0.66% and 0.76% for the four quarter periods of 1998 (2.7% growth cumulatively). Wages and salaries, which account for roughly one-half of total personal income, are projected to grow at a 3.2% rate over the next four quarters, slower than the 5.1% growth registered during the previous four quarters. Transfer payments, which represent one-seventh of total personal income, are expected to grow more slowly over the next four quarters (1.7% in real terms as compared to 3.6% for the previous four-quarter period) due to a decline in the state's welfare caseload.

Personal income data from the Bureau of Economic Analysis (BEA) show improvement in Maryland's performance relative to other states, similar to the changes in employment rankings described above. Between the second quarters of 1996 and 1997, nominal personal income rose 5.9% in Maryland, ranking the state 23rd among the 50 U.S. states and the District of Columbia. During the prior four-quarter period, Maryland had registered a 4.4% increase in nominal personal income, ranking the state 42nd.

Quarterly real personal income growth rates in Baltimore County are projected to be 0.60%, 0.57%, 0.55% and 0.65% for this four-quarter period (2.4% growth cumulatively). Baltimore County's nominal personal income is expected to show continued steady growth, at 4.9% for calendar year 1997, 5.02% in 1998 and 5.05% in 1999. On a fiscal year basis, nominal personal income is projected to *grow 5.33% in FY 1998 and 4.92% in FY 1999* (See Exhibit A).

Spending Affordability Computation

The Spending Affordability Guideline recommendation is calculated by applying the fiscal year 1999 personal income growth factor to the base year (i.e., fiscal year 1998) spending level as defined by the Committee.

Personal Income Growth Factor

The Committee concluded last year that it may sometimes be appropriate to make adjustments to the personal income growth forecast, for use in the spending affordability computation. This reflects a recognition of the difficulty of making accurate forecasts, as well as the fact that personal income may sometimes grow due to factors (such as one-time capital gains, or increases in unearned income and transfer payments) that do not reflect underlying County economic growth. Therefore, following the methodology established last year (a review of the State personal income growth forecasts of the major forecasting authorities), the Committee calculated a consensus average fiscal year 1999 County growth factor of 4.6%.

Base Year (Fiscal Year 1998) Spending Level

The Committee previously established three alternative methodologies for determining the level of base year spending, to allow flexibility in a variety of fiscal and economic situations. The Enacted Budget Method used the Council's enacted budget (i.e., planned spending) as the base year spending level, reflecting the economic and budgetary situation at the start of the fiscal year. The Adjusted Budget Method was a partial adjustment to the Enacted Budget Method, including supplemental appropriations enacted or pending at the time of the Committee's deliberations (just past the mid-point of the fiscal year). The Estimated Final Spending Method modified the Adjusted Budget Method, including an estimate of final actual base year spending (reflecting any anticipated reductions or savings), with further adjustments for

anticipated non-recurring costs or other items which should be excluded from the base.

In recent years, the Committee consistently used the Estimated Final Spending method, allowing appropriate adjustments to be made in changing fiscal situations affecting the setting of guidelines for fiscal years 1994 through 1997.

While continuing to recognize the importance of the Estimated Final Spending method, the Committee last year reconsidered the use of the total General Fund Operating Budget as the starting point for these calculations. The Committee concluded that applying the Spending Affordability Guideline to the entire General Fund Operating Budget was inconsistent with the purpose of the spending affordability process, which is to link budget increases to growth in the County economy, assuming that this reflects growth in the demand for -- and ability to pay for -- County services.

It was determined that specific components of the budget should be excluded from the spending affordability calculation, because growth in these components is not -- or should not -- be based on County economic growth. This approach was reaffirmed this year. The specific items excluded from the guideline, and the rationale for the exclusion, are as follows (see also Exhibit C):

- Appropriations supported or determined by non-County funds:
 - State and federal grants-in-aid budgeted in the General Fund (excluding State reimbursement for Homeowner Property Tax Credit): these funds support a higher level of program activity than the County might choose to fund from its own sources. Additionally, the level of spending related to these grants is not necessarily tied to personal income growth in Baltimore County;
 - Local Share - State and Federal Grants: the total required County General Fund match for all anticipated grants is based on the level

(and match provisions) of grant funding, rather than County service needs or personal income growth; and

- Education - Federal/Restricted Program: the required County General Fund match for such funds in the Department of Education is based on the level of these funds, and is also not tied to personal income growth.
- Capital budget-related appropriations:
 - Pay-As-You-Go (PAYGO): the General Fund contribution to the capital budget, if any, is determined annually based on funds that are available and are not committed to supporting County services;
 - Debt Service: the annual requirement is determined by prior and planned debt issuance, subject to separate debt affordability guidelines; and
- Reserves and contingencies:
 - Economic Stabilization Reserve Fund: the County Code determines any required annual contribution; such transfers from surplus to this restricted fund balance are not part of the annual budget; any additional contribution is appropriated based on funds that are available and are not committed to supporting County services; and
 - Contingency Reserve: The Charter requires annual appropriation of a reserve amount not to exceed 3% of the budget, which reverts to fund balance if not used for operating purposes; amounts transferred and used for operating purposes may be counted towards Guideline spending. The amount budgeted is not based on personal income

growth but rather on an estimate of possible unanticipated spending needs.

- Local grants: The grants awarded by the Commission on Arts and Sciences (budgeted as Organization Contributions) are purely discretionary and are not used for government-related functions such as community crime prevention, economic development, recreation programs, etc.
- Other Adjustments
 - Specific annual adjustments for one-time, nonrecurring costs or revenues which would otherwise be included, anticipated ongoing savings, or similar adjustments, continuing prior Committee policy under the Estimated Final Spending method;
 - Addition of Supplemental appropriations which meet the above criteria for inclusion, continuing prior policy under the Estimated Final Spending method; and
 - Other categories of appropriations, to be determined on a year-to-year, case-by-case, basis.

This methodology yields an adjusted fiscal year 1998 base year spending level of \$841,322,061 subject to the Committee's Spending Affordability Guideline. This is equal to 84.9% of the total Adopted General Fund Budget of \$990,410,683, and 84.5% of the total Adjusted Budget including supplemental appropriations. The \$153,853,862 difference between the Adjusted Budget and base year spending represents costs which may need to be funded in subsequent years, but not necessarily at a level which is related to County economic growth. Rather, funding for

these initiatives is made available from anticipated revenues and funds (surpluses) which are not otherwise committed to supporting essential County services.

Recommendation - Fiscal Year 1999 Spending Affordability Guideline

Applying the consensus average personal income growth rate of 4.6% to the fiscal year 1998 base year amount above yields the allowable growth in spending subject to the Affordability Guideline. **The Committee recommends a fiscal year 1999 spending level of \$879,983,165 for spending subject to the Affordability Guideline.** The Committee further reports a preliminary fiscal year 1999 General Fund revenue estimate of \$1,016,693,000. **When the fiscal year 1999 Guideline is subtracted from these projected revenues, the remaining balance is \$136,709,835, representing the total funding available from current operating revenue for those items excluded from the Committee's Guideline.** The Committee's revenue estimates are preliminary and will be adjusted as necessary as additional information becomes available to the Committee.

The fiscal year 1999 revenue amount noted above does not include the \$58,395,000 surplus (unreserved balance) that was available at the start of fiscal year 1998; based on current appropriations and revised estimates, surplus will total \$59,114,000 at the end of fiscal year 1998. Combining this with the \$29,178,000 reserved fund balance currently in the Economic Stabilization Reserve Account (ESRA), the total of all fund balances is estimated to reach \$88,969,000. The Committee recognizes that total fund balance is an important indicator for sound fiscal policy and helps maintain the County's AAA bond rating. The Administration's current financial guidelines set a target for total balance equal to 5% of revenues (including the ESRA, which is set by Code to reach at least 3% of budget); amounts above this level are to be retained for "short term tax stabilization" or, if significant, used to fund tax reductions or one-time expenditures such as PAYGO. The 5% target would total \$50,834,650 based on the fiscal year 1999 revenue estimate; this leaves over \$38

million available for uses consistent with the financial guidelines. The Committee will continue to carefully monitor the level and uses of General Fund balances, both reserved and unreserved.

Debt Affordability Comments

The Committee has included debt affordability and capital budget recommendations in its last two reports; this report reaffirms the previously-established guidelines as reasonable and fiscally prudent.

The Committee reviewed and discussed updated information on total debt and debt service trends over time, measured by reference to property values, personal income, General Fund revenues, and other indicators. County finance and budget officials, and their advisors, monitor these trends carefully; the Committee believes that its review of debt affordability and the setting of specific guidelines provides a system of checks and balances to further demonstrate the County's fiscal responsibility to its citizens, bond rating agencies and others in the financial community. The Committee recommends that the annual capital budget and capital program be controlled such that the projected issuance of new tax-supported debt does not push total outstanding debt or annual debt service beyond the levels specified in this report; this includes consideration of the impact of new debt authorization to be requested in the November 1998 referendum. As in past years, the Committee excludes the Pension Funding Bonds from its analysis, and from its calculations. These bonds were issued to finance the unfunded liability of closed pension programs; as such, they provide net current General Fund cost savings, and will not be an ongoing component of the County's debt structure (once retired).

The ratio of debt service to total General Fund revenues is a key debt affordability indicator. The basic benchmark set by credit analysts is that a ratio over 10% indicates that the debt burden is too heavy. The Administration's financial guidelines set a target range of between 8.0 to 9.0%; the County's actual fiscal year 1997 ratio is 8.0% (7.0% excluding Pension Bonds) (See Exhibit D). **The**

Committee recommends that the debt service ratio (excluding Pension Bonds) be maintained below the 10% level.

Personal income is perhaps the most comprehensive indicator for measuring the debt burden, because it takes into account all of the earnings of the County's taxpayers that could be reasonably taxed to pay debt service. Research by Moody's Investors Service shows a current median ratio for states (data not available for counties) of 2.1% and a mean ratio (weighted for total debt and income) of 2.8%. The Administration's financial guidelines set a debt to personal income ratio in the range of 2 to 2.5%, and the estimated fiscal year 1996 ratio is 2.6% (2.2% excluding Pension Bonds) (See Exhibit E). **The Committee recommends that the debt to personal income ratio (excluding Pension Bonds) be maintained below the 3.0% level.**

The ratio of debt to property value is an indicator of the burden that debt places on the property tax base. The County Charter provides that total County debt outstanding shall not exceed 10% of the County's assessable base (reflecting the 40% assessment ratio for real property). Research by Moody's Investors Service shows a current median ratio for counties of comparable size to Baltimore County of 2.5%. The Administration's financial guidelines set a debt to full value ratio in the range of 1.4 to 2.0%, which equates to an assessed value ratio of 3.2 to 4.6%; the actual fiscal year 1996 full value ratio is 1.4% (1.2% excluding Pension Bonds) (See Exhibit F). **The Committee recommends that the debt to full value ratio (excluding Pension Bonds) be maintained below the 2.5% level.**

Other Issues

As the Committee has undertaken review of an increasingly broad range of issues, it has recognized the importance of continued meetings after issuance of the annual report. Productive meetings have been held throughout the last two years, addressing various operating and capital budget, revenue and debt issues.

The Committee will continue to meet during 1998; among the topics of discussion will be refining the consideration of revenue and budget projections in setting the guideline, the relationship between personal income growth and County revenue and budget growth, other relevant indicators of County economic growth and spending affordability, and various capital budget and debt affordability issues.

**BALTIMORE COUNTY AND MARYLAND PERSONAL INCOME FORECASTS
(MILLIONS OF CURRENT DOLLARS)**

QUARTER	BALTIMORE COUNTY PERSONAL INCOME ESTIMATE	PERCENT CHANGE	BALTIMORE COUNTY PERSONAL INCOME FORECAST	PERCENT CHANGE	MARYLAND PERSONAL INCOME HISTORY	PERCENT CHANGE	MARYLAND PERSONAL INCOME FORECAST	PERCENT CHANGE
FY 94								
1993:3	\$18,010	0.84%			\$121,380	0.78%		
1993:4	\$18,280	1.50%			\$123,517	1.76%		
1994:1	\$18,546	1.46%			\$123,776	0.21%		
1994:2	\$18,811	1.43%			\$126,304	2.04%		
FY CHANGE		3.43%				4.69%		
FY 95								
1994:3	\$19,052	1.28%			\$128,124	1.44%		
1994:4	\$19,263	1.11%			\$129,853	1.35%		
1995:1	\$19,472	1.09%			\$132,435	1.99%		
1995:2	\$19,680	1.07%			\$133,396	0.73%		
FY CHANGE		5.19%				5.82%		
FY 96								
1995:3	\$19,891	1.07%			\$134,073	0.51%		
1995:4	\$20,102	1.06%			\$135,171	0.82%		
1996:1			\$20,543	2.19%	\$137,621	1.81%		
1996:2			\$20,917	1.82%	\$139,245	1.18%		
FY CHANGE				5.14%		4.26%		
FY 97								
1996:3			\$20,949	0.15%	\$140,748	1.08%		
1996:4			\$21,166	1.04%	\$142,657	1.36%		
1997:1			\$21,520	1.67%	\$145,502	1.99%		
1997:2			\$21,734	0.99%	\$147,033	1.05%		
FY CHANGE				4.81%		5.46%		
FY 98								
1997:3			\$22,071	1.55%			\$149,395	1.61%
1997:4			\$22,349	1.26%			\$151,361	1.32%
1998:1			\$22,617	1.20%			\$153,270	1.26%
1998:2			\$22,882	1.17%			\$155,151	1.23%
FY CHANGE				5.33%				5.77%
FY 99								
1998:3			\$23,145	1.15%			\$157,028	1.21%
1998:4			\$23,435	1.25%			\$159,087	1.31%
1999:1			\$23,730	1.26%			\$161,179	1.32%
1999:2			\$24,029	1.26%			\$163,301	1.32%
FY CHANGE				4.92%				5.16%

January 20, 1998

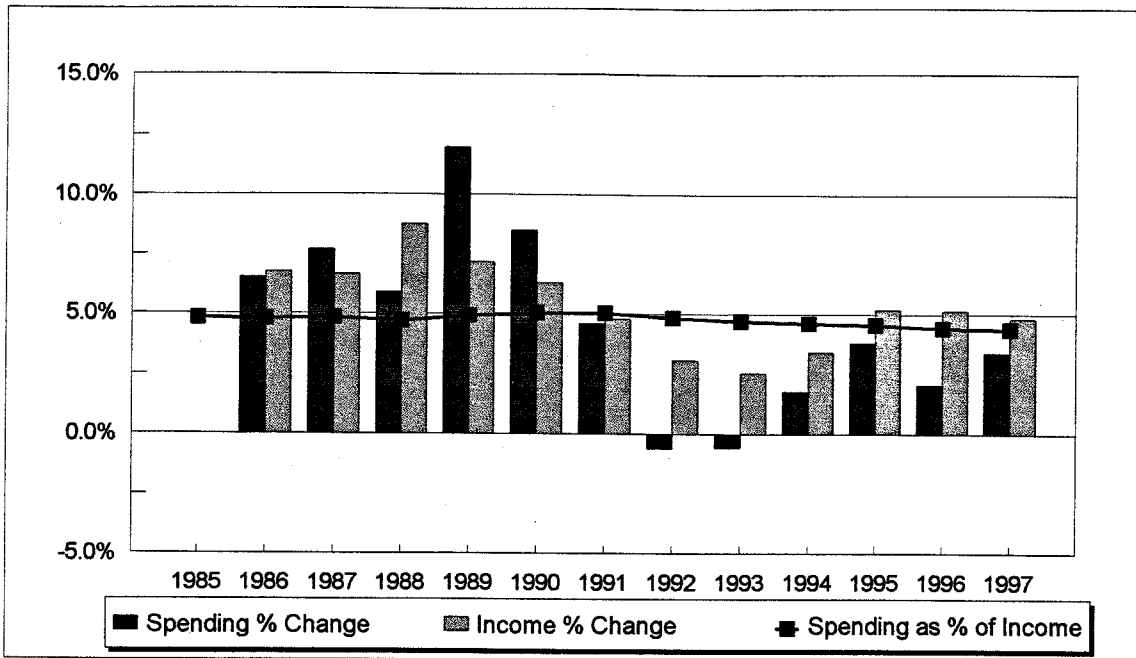
Sources:

Regional Economic Studies Institute, Towson University

Bureau Of Economic Analysis

EXHIBIT A

**BALTIMORE COUNTY, MARYLAND
GENERAL FUND SPENDING AND PERSONAL INCOME
FISCAL YEARS 1985 TO 1997**



Fiscal Year	Final General Fund Spending (\$Millions)	% Change	Balt. Co. Personal Income (\$Billions)*	% Change	Spending as % of Personal Income
1985	\$548.350	--	\$11.401	--	4.81%
1986	584.108	6.5%	12.170	6.7%	4.80%
1987	629.000	7.7%	12.977	6.6%	4.85%
1988	665.976	5.9%	14.113	8.8%	4.72%
1989	745.631	12.0%	15.125	7.2%	4.93%
1990	809.020	8.5%	16.075	6.3%	5.03%
1991	846.189	4.6%	16.844	4.8%	5.02%
1992	841.254	-0.6%	17.359	3.1%	4.85%
1993	836.438	-0.6%	17.802	2.6%	4.70%
1994	851.315	1.8%	18.412	3.4%	4.62%
1995	883.680	3.8%	19.367	5.2%	4.56%
1996	901.937	2.1%	20.363	5.1%	4.43%
1997	932.651	3.4%	21.342	4.8%	4.37%

* Average of the four calendar quarters falling within the fiscal year; see Exhibit A of this report.

Sources: Baltimore County Comprehensive Annual Financial Reports, Regional Economic Studies Institute - Towson University (RESI)

**BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE (SAC)
FISCAL YEAR 1999 GUIDELINE**

FY 1998 General Fund Operating Budget Appropriations	\$990,410,683 (A)
Supplementary Appropriations ¹	<u>4,765,240</u>
Sub-Total	<u>995,175,923</u>
SAC Adjustments:	
Selected Non-County Funds	
State and Federal Grants in Aid (excluding tax reimbursement)	(24,269,683)
Local Share - State & Fed. Grants ¹	(4,421,085)
Education - Federal/Restricted Program	(800,000)
Capital-Related Items	
Capital (PAYGO) ¹	(40,395,000)
Debt Service	(81,917,990)
Drydock Debt	0
Reserve Funds	
Economic Stabilization Reserve Fund	0
Contingency Reserve ¹	(755,481)
Local Grants	
Arts & Science Grants ¹	<u>(1,277,923)</u>
Sub-Total	<u>(153,837,162)</u>
Other Adjustments	
One-time revenues, costs or savings ¹	(16,700)
Supplementary Appropriations (not adjusted above)	<u>0</u>
Sub-Total	<u>(16,700)</u>
Total Adjustments	<u>(153,853,862) (B)</u>
FY 1998 SAC Spending - Base Year (A - B)	<u>\$841,322,061 (C)</u>
Growth Factor ²	x <u>1.0460 (D)</u>
FY 1999 SAC Spending Guideline (C x D)	<u>\$879,983,165 (E)</u>
FY 1999 Preliminary General Fund Revenue Estimate	1,016,693,000 (F)
FY 1999 GF Resources Above Guideline (F - E)	<u>\$136,709,835 ³</u>

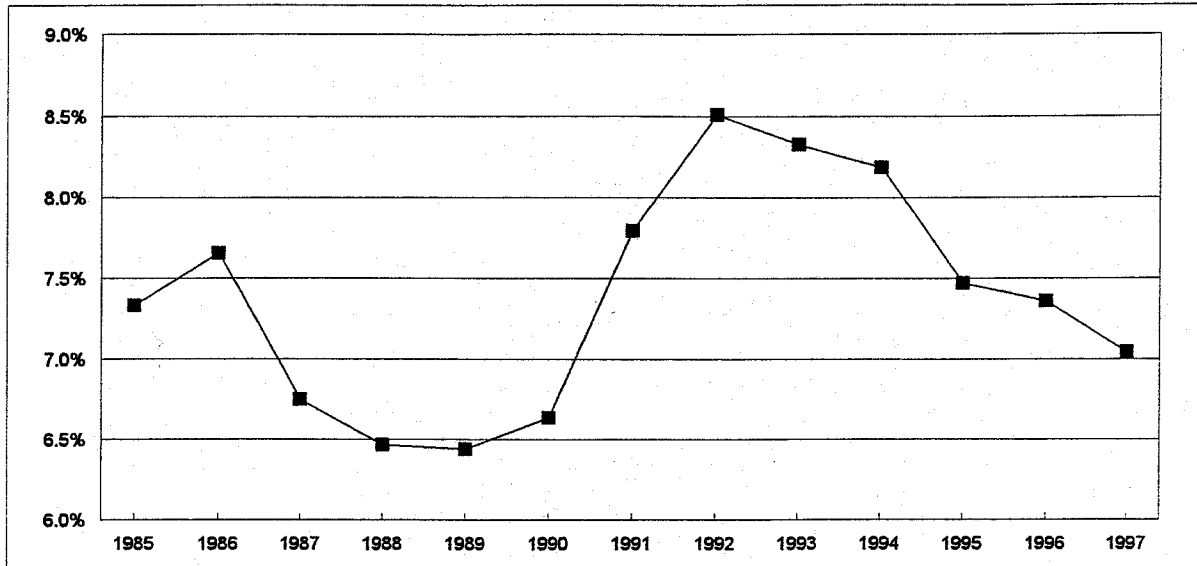
¹ Includes the effects of Bills 83-, 105- and 114-97 and BATs 98-01, -02 and -04

² FY 1999 Baltimore County personal income growth forecast (4.92%) from Regional Economic Studies Institute - Towson University (RESI) (January 1998), adjusted by a factor of 93.40%, equal to the average ratio of RESI Maryland personal income growth rate forecasts for CY 1997 to 1999 to the consensus average of all major forecasts.

³ Excludes prior years reserved and unreserved General Fund Balances.

BALTIMORE COUNTY, MARYLAND

DEBT SERVICE TO TOTAL GENERAL FUND REVENUES Fiscal Years 1985 to 1997



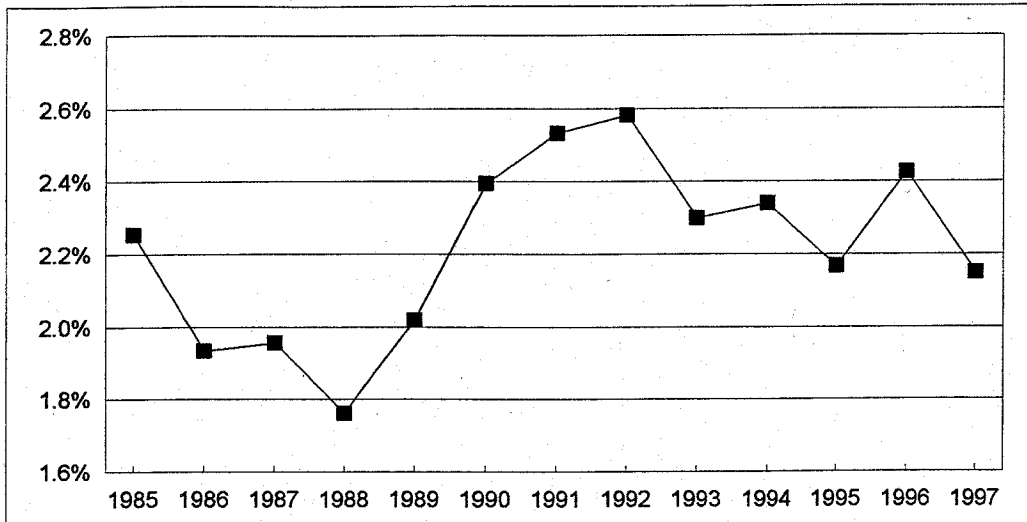
Fiscal Year	Total General Fund Revenues	Debt Service *	Debt Service/ Revenues Ratio
1985	\$570,915,904	\$41,881,021	7.3%
1986	590,361,657	45,212,131	7.7%
1987	633,587,471	42,782,690	6.8%
1988	688,248,138	44,511,364	6.5%
1989	733,403,105	47,229,889	6.4%
1990	792,369,875	52,580,384	6.6%
1991	820,557,654	63,953,476	7.8%
1992	801,995,002	68,239,158	8.5%
1993	844,559,646	70,338,690	8.3%
1994	864,330,812	70,757,472	8.2%
1995	891,915,401	66,654,807	7.5%
1996	919,128,524	67,681,221	7.4%
1997	963,225,000	67,878,000	7.0%

* Debt Service related to G.O. Debt (excluding Pension Bonds) and Other Borrowings; Education and Library lease costs data are not readily available but the historical ratios should not change significantly with the debt service for these lease costs.

Sources: Baltimore County Annual Budget Documents, Baltimore County Comprehensive Annual Financial Reports

BALTIMORE COUNTY, MARYLAND

TOTAL DEBT TO PERSONAL INCOME Fiscal Years 1985 to 1997



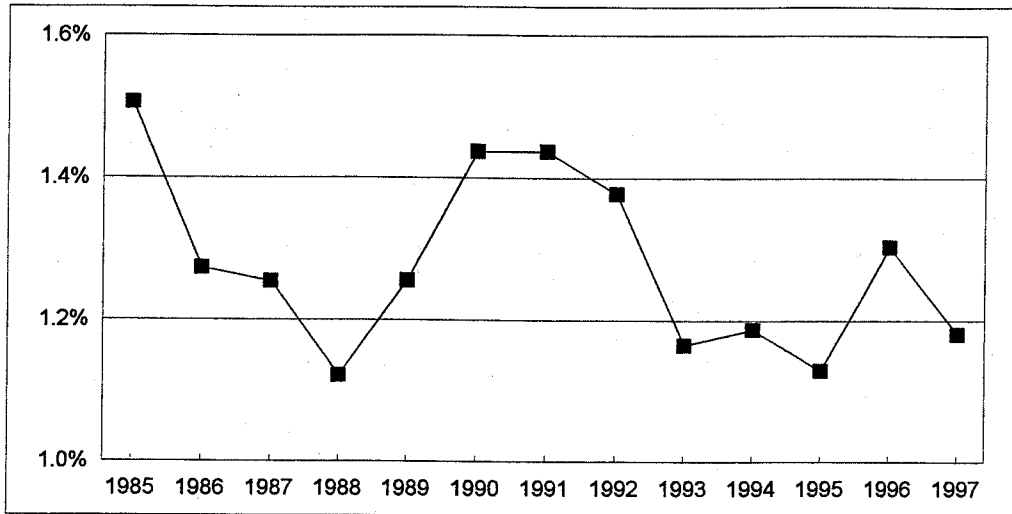
Fiscal Year	Debt Ratios to Personal Income		
	G.O. Bonds *	Other Borrowings	Total Debt
1985	2.2%	0.0%	2.3%
1986	1.9%	0.0%	1.9%
1987	1.9%	0.0%	2.0%
1988	1.6%	0.1%	1.8%
1989	1.8%	0.2%	2.0%
1990	2.0%	0.4%	2.4%
1991	2.2%	0.3%	2.5%
1992	2.3%	0.3%	2.6%
1993	2.1%	0.2%	2.3%
1994	2.1%	0.2%	2.3%
1995	1.9%	0.2%	2.2%
1996	2.2%	0.2%	2.4%
1997	1.9%	0.2%	2.2%

* Excluding Pension Bonds

Sources: Baltimore County Comprehensive Annual Financial Reports; Regional Economic Studies Institute - Towson University (RESI)

BALTIMORE COUNTY, MARYLAND

TOTAL DEBT TO FULL VALUE Fiscal Years 1985 to 1997



Fiscal Year	Debt Ratios to Full Value		
	G.O. Bonds*	Other Borrowings	Total Debt
1985	1.5%	0.0%	1.5%
1986	1.3%	0.0%	1.3%
1987	1.2%	0.0%	1.3%
1988	1.0%	0.1%	1.1%
1989	1.1%	0.1%	1.3%
1990	1.2%	0.2%	1.4%
1991	1.3%	0.2%	1.4%
1992	1.2%	0.1%	1.4%
1993	1.0%	0.1%	1.2%
1994	1.1%	0.1%	1.2%
1995	1.0%	0.1%	1.1%
1996	1.2%	0.1%	1.3%
1997	1.1%	0.1%	1.2%

* Excluding Pension Bonds

Source: Baltimore County Comprehensive Annual Financial Reports